UNITED
NATIONS

S

Security Council

Distr.
GENERAL

S/1997/804
16 October 1997

ORIGINAL: ENGLISH

LETTER DATED 16 OCTOBER 1997 FROM THE SECRETARY-GENERAL
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to convey the attached communication dated 14 October 1997 from the High Representative, Mr. Carlos Westendorp, on the implementation of the Peace Agreement on Bosnia and Herzegovina (see annex).

I would appreciate your bringing it to the attention of the members of the Security Council.

(Signed) Kofi A. ANNAN

97-27596 (E) 201097

/...

Annex

Letter dated 14 October 1997 from the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

I have the honour to transmit to you the seventh report on the activities of the High Representative for Implementation of the Peace Agreement in Bosnia and Herzegovina (see appendix). I would appreciate your making the report available to the Security Council.

(Signed) Carlos WESTENDORP

Appendix

Report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina to the Secretary-General

I. INTRODUCTION

1. Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council endorsed the appointment of a High Representative to monitor the implementation of the Peace Agreement and mobilize and, as appropriate, give guidance to, and coordinate the activities of, the civilian organizations and agencies involved in the implementation of the Peace Agreement on Bosnia and Herzegovina, I submit hereby the seventh report envisaged by Annex 10 of the Peace Agreement and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995.

2. The report covers the activities of the Office of the High Representative and developments in the areas listed below during the period from the beginning of July 1997 to the end of September 1997.

II. INSTITUTIONAL ASPECTS

Office of the High Representative

3. At the present stage of the peace process in Bosnia and Herzegovina, characterized as the consolidation period, the major international efforts are concentrated on the most complicated part of the implementation of the Peace Agreement - the civilian component. Needless to say, the success of all activities in establishing lasting peace in Bosnia and Herzegovina essentially depends on the realization of these aspects. Though the peace process continues at a slow pace, the results achieved are moderate and the tasks ahead are enormous, yet I believe there is still certain hope for optimism because the international community has a clear-cut direction - the Peace Agreement and the common understanding of the vital importance of its accomplishment. The main responsibility for carrying out the civilian tasks lies with the Bosnia and Herzegovina authorities. Only when the Bosnian parties themselves start jointly implementing their commitments under the Peace Agreement, through, above all, the effective functioning of their common State structures, will the peace settlement be truly achieved and the peace process become irreversible.

4. My headquarters in Sarajevo and the secretariat in Brussels have, in the period described, continued to maintain operational coordination of civilian implementation activities inside Bosnia and Herzegovina, as well as contacts with the headquarters of the respective implementation organizations and agencies, closely following, to the extent possible, the various international forums dealing with the Bosnian peace settlement.

5. Regional coordination and monitoring of the situation on the ground, has been a priority and my offices in Mostar, Tuzla and Banja Luka continued to facilitate contacts at a local level, promoting inter-entity cooperation in a

variety of fields. The regional reach provided by these offices will be essential during the consolidation period.

6. My Deputy, the Brcko Supervisor, having established Office of the High Representative-North in mid-April 1997, is successfully fulfilling his duties in accordance with the Peace Agreement and the Arbitration Award for Brcko. His office coordinates closely with all international organizations represented in Brcko and in the Office of the High Representative-North area of responsibility and is well supported by the Stabilization Force (SFOR), the International Police Task Force (IPTF), the Organization for Security and Cooperation in Europe (OSCE) and the Office of the United Nations High Commissioner for Refugees (UNHCR). Taking into account the increased tempo of the Supervisor's activities as we approach the 15 March 1998 decision point, I intend to add expert staff to his office temporarily to ensure proper coverage of tasks and areas of concern.

7. The capacity achieved by my office in Sarajevo to conduct preventative, pro-active and follow-up action needs to be both preserved and developed; conditions for such continuity require countries that contribute personnel to maintain their current level of commitment. I'm thankful to the Governments who have replaced or extended the terms of duty of the staff and hope that steady contribution in this field would be maintained.

8. On 17 September a team of 12 dear friends and very competent and dedicated colleagues were tragically killed in a helicopter crash in Central Bosnia. All of us were shocked by the untimely death of my Principal Deputy, Ambassador Gerd Wagner, Leah Melnick, Charles Morpeth, Jurgen Schauf, Thomas Reinhardt, Peter Backes, Livio Beccaccio, Andrzej Buler, David Kriskovich, William Nesbitt, Marvin Padgett and Georg Stiebler. The loss of such selfless servants of the peace process from different States of the world remind us of the countless sacrifices that have been made by so many foreigners to help the troubled country. We will push on with greater determination and resolve to complete the task of implementing the Peace Agreement; peace and reconciliation in Bosnia and Herzegovina will be their true and lasting memorial.

Peace Implementation Council

9. The Steering Board of the Peace Implementation Council has met twice during the reporting period, in Sarajevo on 18 July, and in Brussels on 1 October. Particular attention has been focused on the implementation of the Sintra Declaration which set out in clear terms the exact performance expected of the authorities in the coming months, including a number of specific actions to be undertaken without delay. Furthermore, the Steering Board asked me to recommend non-compliance measures in the case of delays by the authorities in Bosnia and Herzegovina. Such was the level of obstruction regarding the appointment of ambassadors and the adoption of citizenship and passport laws, that I made such recommendations to the Steering Board in both cases. More recently, I have exercised the enhanced powers given to me in the Sintra Declaration in relation to media issues.

III. COORDINATION OF CIVILIAN IMPLEMENTATION

Overall coordination

10. Regular discussions with the representatives of Governments and organizations have been maintained at all levels. I have made determined efforts to consult personally with concerned leaders and value highly the support I receive from them. My secretariat in Brussels has been especially engaged in this maintenance of close contacts with international partners and, further, in the provision of essential longer-range forecasting of issues related to civilian implementation. In Sarajevo, I have continued to convene, on a regular basis, Principals meetings with the participation of the Special Representative of the United Nations Secretary-General, the IPTF Commissioner, the UNHCR Special Envoy, the Commander of SFOR and the OSCE Head of Mission.

11. The Economic Task Force, which meets under my chairmanship in Sarajevo, continues to be the key instrument for coordinating economic reform policies and priorities of international reconstruction assistance. The Economic Task Force has strengthened the implementation of political conditionality as requested by the Third Donors' Conference in July. In addition, the Economic Task Force has taken the lead in developing an anti-corruption strategy for Bosnia and Herzegovina.

12. The Reconstruction and Return Task Force moved into a new phase of operational activity and responsibility. On the operational side, Regional Reconstruction and Return Task Forces were established for the Brcko/Posavina area, the north-western region - addressing return and reconstruction issues in the Una Sana Canton as well as the so-called Anvil area - and for the Sarajevo and Gorazde Cantons. The Regional Reconstruction and Return Task Forces have made important contributions to coordination among the appropriate agencies at the field level and to regional inputs into the policy work of the central Reconstruction and Return Task Force.

13. The Human Rights Coordination Centre Steering Board continues to meet on a weekly basis to ensure prompt and thorough implementation of the priorities set by the Human Rights Task Force. Plans are under way for a human rights workshop to be attended by a wide range of organizations, including international and local non-governmental organizations, to discuss progress and gaps in human rights implementation in preparation for the next meeting of the Human Rights Task Force.

14. The Freedom of Movement Task Force has continued to be a valuable forum for exploring various ways to promote Freedom of Movement for people, goods and services.

Common institutions of Bosnia and Herzegovina

15. The Presidency, the Council of Ministers and Parliamentary Assembly continue to meet albeit infrequently due to the lack of an administrative structure and the outstanding decision on a final location. The internal crisis

in the Republika Srpska - the regular absence of Serb members - has also substantially hampered the work of these institutions.

16. The Presidency held four regular working sessions and met several international representatives during the reporting period.

17. In order to press for a solution on the diplomatic and consular network in accordance with the deadline of 1 August fixed in the Sintra Declaration and overcome the lack of spirit of compromise of the parties, I recommended on 2 August that Steering Board Members suspend relations with the Bosnia and Herzegovina ambassadors with immediate effect. As a result, the agreement in principle on the number (33) of embassies and permanent missions of Bosnia and Herzegovina and the division of posts was reached and signed on 8 August on the basis of a proposal negotiated by my office. A decision on the appointment of ambassadors was made on 30 September pending the outstanding issue regarding three postings. The issue of the staffing of the embassies and of the Ministry of Foreign Affairs needs to be further addressed.

18. The draft laws on citizenship and passports also appeared on the agenda of the Presidency sessions, after the failure of the Council of Ministers to reach an agreement on this issue. The draft law on citizenship was debated and sent back with comments to the Council of Ministers for its further consideration. It is important to note that on 8 August the Presidency reached an agreement on the rules of procedures of the Standing Committee on Military Matters.

19. Amongst other crucial issues that need further decisions of the Presidency are the establishment of diplomatic relations between Bosnia and Herzegovina and the Federal Republic of Yugoslavia, the common flag and the design of the Bosnia and Herzegovina currency.

20. The Council of Ministers was again the most active of the common institutions, though meeting on an irregular basis but on average at least once weekly. During the reporting period, the Council made good progress on the issues of civil aviation and telecommunications by signing important agreements in these fields. The priority here now shifts to implementation of these commitments. Progress on other issues has been less notable.

21. I believe that the Council of Ministers must take the required steps, with appropriate support from my office to maintain what positive momentum exists, in order to equip itself with the needed tools to meet its constitutional obligations. This is particularly necessary when one notes the failure of the Council in meeting Sintra deadlines, most evidently on the important draft laws on citizenship and passports. The Council of Ministers was unable to agree to the final draft texts my office prepared and which I believe present the fairest and most realistic solution. As a result of the Serb members' refusal to accept this draft, which was supported by the Bosniak and Croat members, I recommended to the Steering Board that the passports of the Serb members of the Presidency and of the Council should not be recognized as valid travel documents. This recommendation still stands since the situation has yet to be resolved.

22. Both houses of the Parliamentary Assembly held their fourth session on 16 September in Lukavica at which the Law on the Official Gazette of Bosnia and

Herzegovina was adopted. This opened the way to the entry into force of the quick start package I (package of essential legislation passed in late June). The Parliamentary Assembly also passed two World Bank credit agreements on education and transport previously signed by the Presidency members. Furthermore the Parliamentary Assembly has installed its commissions.

23. The Constitutional Court of Bosnia and Herzegovina held two sessions during the reporting period. At the session of 27 July the Court adopted its rules of procedure and elected its President and four Vice-Presidents. On 25 and 26 September the Court discussed its administrative structure and adopted the decision on the organization of the Constitutional Court, which enables it to employ the essential staff. The judges also dealt with the first of a total 13 cases which, so far, have been submitted to the Court.

24. Although the Rules of Procedure for the Standing Committee for Military Matters were signed in early August, its first meeting duly occurred on 15 September. All members of the Bosnia and Herzegovina Presidency along with the respective Defence Ministers and Chiefs of staff from the two entities attended the meeting.

25. I am determined to make the Standing Committee for Military Matters a working institution rather than a facade of one, and in advance of this first meeting, my staff established contacts with the three presidential-appointed military advisers who provide the secretariat functions to the Committee. The agenda was agreed and included an OSCE presentation on arms control and preliminary discussion on the appointment of military attaches. The Standing Committee for Military Matters will have a major role to play in the long-term stability in Bosnia and Herzegovina by encouraging openness, cooperation and mutual trust between the entities. My Military Adviser will have to coordinate and drive the Committee's secretariat and will continue to press for results from the Committee.

Essential legislation

26. A draft law on citizenship of Bosnia and Herzegovina prepared by one of the Council of Ministers, working in close cooperation with my office as well as with the Council of Europe and UNHCR, has been before the Council of Ministers since early this summer, but it has not been able to agree on outstanding issues. The draft has also been considered by the Bosnia and Herzegovina Presidency. The law on citizenship is extremely important, and it is essential that the Common Institutions of Bosnia and Herzegovina adopt it without any further delay.

27. As soon as the law on citizenship is adopted, the two entities will need to harmonize their citizenship laws with that law. My office will, in cooperation with the Council of Europe, offer its assistance to the entities in this respect.

28. The draft law on passports, which regulates the form of the passports and the way in which they are issued, is also before the Council of Ministers for

adoption, but it has not yet been able to resolve the issue on the design of the passport.

29. Legislation adopted by the Bosnia and Herzegovina Parliamentary Assembly does not enter into force before official publication. The Council of Ministers, on its own initiative, agreed on a law on the Official Gazette of Bosnia and Herzegovina. It has been adopted by the Bosnia and Herzegovina Parliamentary Assembly and the new Gazette will shortly be regularly published in the languages of three constituent people.

30. My office has, together with other international institutions, started the process of elaborating the second package of essential legislation, including legislation on frequency management and telecommunications, airspace management, permanent election law, immigration law and permanent law on customs and customs tariffs. The first draft of these laws are being prepared and will be presented to the Bosnia and Herzegovina authorities soon.

Joint commissions

31. Activities of the Provisional Election Commission (Annex 3) chaired by OSCE, are referred to in the elections sections of this report.

32. The Commission on Human Rights, which consists of the Human Rights Chamber and the Ombudsperson (Annex 6) and the Commission for Real Property Claims (Annex 7) continued their work.

33. The Human Rights Chamber, the Ombudsperson and the Commission for Real Property Claims all face critical funding shortfalls. In response to the Sintra Steering Board meeting's call the Bosnia and Herzegovina Government has committed DM 200,000 for each institution from its 1997 budget. The Steering Board also recognized, however, that the institutions will require international support during the first years of their operation, and committed itself to provide and to seek from others supplementary financial assistance to allow their important work to continue. To meet that commitment, I have proposed to the Peace Implementation Council Steering Board that funding for the three institutions be provided for 1998 through assessed contributions according to the same funding key used to determine contributions to the Office of the High Representative.

34. Despite the critical funding situation, the work of all three institutions continues to expand. As of 30 September, the Human Rights Ombudsperson (both Sarajevo and Banja Luka offices) had opened 2,252 provisional files, registered 1,060 cases, and issued 49 final reports in individual cases and 10 special reports. Thirty-three cases have been referred by the Ombudsperson to the Human Rights Chamber. By 30 September, the Human Rights Chamber had registered 59 cases and rendered 11 decisions on admissibility of applications. Five public hearings have been held and final decisions have been rendered in two cases. During the same period, the Commission for Real Property Claims had received over 40,000 claims, rendered more than 4,200 decisions, and sent 450 advisory opinions to the Office of the High Representative Supervisor in Brcko. In August, the Commission for Real Property Claims began offering to all

reconstruction agencies the service of checking property rights to private houses. Since then, it has received requests to check property rights for a total of 1,094 properties.

35. All three institutions have been hampered in their work by a low level of cooperation from the authorities. In particular, authorities have frequently failed to respond to reports or requests for information, or have responded inadequately; the Ombudsperson continues to face difficulties in ensuring that Federation authorities fulfil their responsibilities under Annex 6. For all three institutions, there remains a serious gap with regard to steps taken by the authorities to ensure that the decisions and recommendations of these institutions are promptly and effectively implemented. Nevertheless, measurable progress has been made in terms of the institutions' effectiveness and impact in specific cases.

36. My office will continue to place a high priority on working with the Ombudsperson, the Human Rights Chamber and the Property Commission to ensure full cooperation by the authorities with each institution and to ensure respect for their reports and decisions, including through the drafting of implementation legislation where appropriate. We will also work diligently to monitor and coordinate intervention in cases in which the authorities have failed to meet those essential obligations.

37. The Commission to Preserve National Monuments (Annex 8), coordinated and financed by UNESCO, held its fifth session on 22 July, and extended the selection of monuments and sites for the appropriate national list. The listed heritage is subsequently visited for analysis of condition, and the proper documentation is prepared, two of the major problems being the lack of documentation on historic sites and monuments, and its dispersion.

38. At its recent meeting, the Commission on Public Corporations (Annex 9) agreed that railway inter-entity traffic be promptly re-established. Instructions are given to the operating companies to work together and to take whatever steps needed to implement that decision, starting with the line Maglaj-Tuzla and Doboj-Zvornik and first with freight traffic. Following the legal opinion issued by my office, a new organizational structure of the railway sector was submitted to the Commission, but no consensus was yet reached. The Commission is due to restart the examination of the energy sector and the working group will, inter alia, examine the advisability of creating a body between the two entities in order to increase coordination and devise a joint policy in the field.

Elections

39. Since my last report, the voters in Bosnia and Herzegovina went to the polls on 13 and 14 September in order to cast their ballots for the first democratically elected municipal councils following the signing of the Peace Agreement. The municipal elections were held in a calm, orderly and dignified manner. This was the result of the cooperative attitude of the authorities, promoted by a major planning effort on the part of all the key international agencies drawing on experience accumulated during the 1996 electoral process.

40. Threats of election boycott were encountered throughout the preparation process culminating in a temporary withdrawal of the Republika Srpska and Federation representatives from the work of the Provisional Election Commission. The Republika Srpska representative was withdrawn until the Republika Srpska Election Commission received a copy of the final voters register; as a result of talks in Belgrade certain operational concessions were made. The Croat Federation representative was withdrawn, and only talks in Zagreb and concessions concerning the electoral rules for the Central Zone in Mostar in return to the adoption of significant amendments to the Herzegovina-Neretva Canton Constitution could overcome a Croatian Democratic Union (HDZ) boycott. By such, both sides came on board in the eleventh hour allowing for an overall participation of approximately 80-85 per cent of the electorate. The only substantial obstruction of the process was encountered in Zepce where HDZ chose not to participate.

41. As the international supervision of the municipal elections required an operational plan for the implementation and management of the post-election period, the Ministerial Steering Board meeting in Sintra endorsed the Election Implementation Plan, which established an inter-agency monitoring mechanism - Election Results Implementation Committees - tasked with the monitoring of all aspects of the parties' implementation of the municipal elections. This plan is established primarily to enable the international agencies to identify any individual, political party, authority or others who obstruct the implementation process, whereas the responsibility for actual implementation rests with the parties.

42. With the end of the year, the mandate of the Provisional Election Commission for supervision of the municipal elections will come to an end. Then, the OSCE Head of Mission will, according to the Election Implementation Plan, assess the overall electoral process and report to the OSCE Chairman-in-Office in the form of a municipal electoral process closure report. The final phase in the municipal electoral process ends with this report.

43. On 5 August the Republika Srpska President requested OSCE to extend - or to be more precise - expand its mission until the end of the year, in order to supervise the preparation and conduct of the extraordinary Republika Srpska National Assembly elections. It was understood that the voters register, created via the affirmative voter registration for the municipal elections, would constitute the basis for determining eligibility. It was also implied that the Provisional Election Commission rules and regulations, with only the necessary changes to accommodate the situation, would apply.

44. On 26 September, the OSCE Permanent Council formally decided to undertake the task of supervising the Republika Srpska National Assembly elections, to be held on a date proposed by the President of Republika Srpska in consultation with OSCE. Furthermore, the Permanent Council decided to supervise other elections to be held in Republika Srpska at a later date in accordance with constitutional provisions, taking note of an agreement between the Republika Srpska President and the Serb Member of the Bosnia and Herzegovina Presidency, signed in Belgrade on 24 September.

45. My office has continuously stressed that elections held in Bosnia and Herzegovina preceding the establishment of a Permanent Election Commission, must be supervised by OSCE to deserve the attributes of being free, fair and democratic. Furthermore, it is necessary that any such supervision is accompanied by the application of the Provisional Election Commission rules and regulations.

46. As elections are the confirmation of the constitutional system envisaged in the Peace Agreement, future elections in Bosnia and Herzegovina will be of paramount importance for the implementation of the Peace Agreement. Therefore, facilitating the establishment of the Permanent Election Commission is one of the most important tasks before my office. As envisaged in the first action plan drawn up during the Peace Implementation Conference in London on 4 and 5 December 1996, the Permanent Election Commission is to be established by an Election Law to be adopted by the Bosnia and Herzegovina Parliamentary Assembly; a first draft will be presented to the parties for their consideration in the near future.

Federation issues

47. Throughout the Federation, the political and security climate continued to improve. Refugee return, including to minority areas, is occurring especially in the Central Bosnia Canton and the Zenica-Doboj Canton. Freedom of movement does not seem to constitute a major problem any more. However, some worrisome developments also occurred, such as the car bombing in West Mostar on 18 September and several attacks on religious objects.

48. My office continued to deal extensively with Federation issues. Of particular note were a Federation Forum on 20 August and two high-level Federation meetings on the Central Bosnia Canton on 5 and 27 August.

49. On 4 September, the Sarajevo Canton Assembly adopted the constitutional amendments necessary to establish the city of Sarajevo. After municipal elections, the city must be established, with guaranteed representation for all three ethnic groups. The Office of the High Representative will closely follow the formation of the City Council, the election of a mayor, and changes in administration to ensure that all groups in the community share in the governance of the Bosnia and Herzegovina capital.

50. On 13 September, the Cantonal Assembly of the Herzegovina-Neretva Canton adopted amendments to the Cantonal Constitution concerning Mostar, thus unblocking the way for municipal elections in which all major parties in the Federation participated. The situation in Mostar, however, continues to be volatile with the Croat partner not yet having honoured its obligation to dissolve the Union of the three West Mostar municipalities.

51. In addition to Sarajevo and Gorazde, the two Cantons under a special regime, i.e. the Herzegovina-Neretva Canton and the Central Bosnia Canton, started the restructuring process for a new, unified Cantonal police. This joint police is now operational in a number of ethnically mixed municipalities, although problems persist in some municipalities. In light of their importance

for providing security, the establishment of joint police structures is a precondition for a large-scale return of displaced persons and refugees to minority regions.

52. In the Federation House of Peoples, HDZ interrupted its earlier blockade that had arisen from the absence of an agreement on the law on split and new municipalities, and in particular on the Croat populated Usora, and consented to the adoption and amendment of a number of important Federation laws, including the Federation budget for 1997. The question of split and new municipalities, especially Usora, however, remains on the agenda and will have to be resolved without further delay.

Republika Srpska issues

53. Since my last report (S/1997/542, annex), the constitutional and political crisis in the Republika Srpska has deepened. It had started with Republika Srpska President's suspension from office of the Minister of Interior on corruption and embezzlement charges. On 3 July, the President dissolved the Republika Srpska National Assembly on the grounds that it had become an "uncritical instrument of the informal centres of power", thus openly challenging the Serbian Democratic Party (SDS) leadership. Pale disregarded this decision, and the SDS members of the dissolved Assembly continued to meet. The Venice Commission, an advisory body of law experts under the auspices of the Council of Europe, confirmed on 10 July that the President acted within her rights and that the Republika Srpska Government could, until new elections, only continue its work in a caretaker capacity. On 15 August the Republika Srpska Constitutional Court ruled that the President's decision had been unconstitutional. This decision was the result of political pressure including a physical assault against one of the judges.

54. In parallel to the constitutional crisis, the security situation in the Republika Srpska worsened. On 10 July, SFOR, in accordance with its mandate under Annex 1 A of the Peace Agreement, tried to apprehend two persons who were subject of sealed indictments for war crimes in Prijedor. The result of this operation was one arrest and the death of the former chief of police of Prijedor. In response, the SDS leadership orchestrated a defamation campaign and launched attacks targeted against representatives of international organizations, thus escalating an already volatile situation. At the same time, Serb members of the Presidency and of the Council of Ministers temporarily ceased their cooperation in the common institutions.

55. As a clear signal of the international community's resolve to address these issues, IPTF and SFOR began to treat, as of 8 August, the Republika Srpska special police according to the rules and regulations laid down in Annex 1 A of the Peace Agreement. Security problems, however, continued. On 20 August, IPTF, supported by SFOR, undertook weapon checks in a series of police bases in Banja Luka. On 28 August acts of violence took place in Brcko including against my regional office.

56. Regarding the media situation, my office enhanced its support for independent media in Banja Luka and other parts of the Republika Srpska. On

30 August, the North Atlantic Council in response to my call has confirmed paragraph 70 of the Sintra Declaration and decided that SFOR could curtail or suspend media networks acting "in persistent and blatant contravention of either the spirit or the letter of the Peace Agreement". As an effort to get the Republika Srpska Television to cooperate seriously, my office, SFOR and Pale concluded the Udrigovo Agreement on 2 September, establishing the joint Media Support Advisory Group.

57. At the end of September, the Republika Srpska remains de facto split with its two power centres in Pale and Banja Luka. There are signs, however, that the key players might be willing to overcome this split and find, on the basis of constitutionality and cooperation with the international community, ways out of the present crisis situation. On 24 September, the Republika Srpska President and the Serb member of the Bosnia and Herzegovina Presidency agreed in Belgrade to hold Assembly elections in November and elections of Republika Srpska President as well as Republika Srpska member of Bosnia and Herzegovina Presidency in December. On 26 September, both Banja Luka and Pale agreed with IPTF to have the Republika Srpska police fully restructured.

Media

58. The general situation remains one of concern to the Office of the High Representative. "State" media continued to pursue a nationalist and inflammatory editorial line, although this is less severe in Bosniak media within the Federation. Recent events in Republika Srpska including the seizure of SRT transmitter sites by SFOR have underlined the continued abuse of accepted norms in democratic media standards; the Office of the High Representative will determine the necessary rules for SRT to broadcast in the future. Events in West Mostar have seen an explosion of inflammatory language; this issue has been raised within the Media Support and Advisory Group, chaired by the Office of the High Representative and will be dealt with accordingly.

59. Underscoring the Office of the High Representative's commitment to a free and democratic media within Bosnia and Herzegovina remains the development of a strong, independent and alternative source of information. The Open Broadcast Network (OBN) project continues to develop and now broadcasts to 60 per cent of the territory of Bosnia and Herzegovina, the project development continues to be hampered by late delivery of pledges by donor countries. Funding has now been agreed for the Office of the High Representative inspired Independent Print House project for Banja Luka; this will be a European Community supported project and will provide a guaranteed print facility for independent newspapers in Republika Srpska.

Return of refugees and displaced persons

60. My office has continued its efforts to support as well as coordinate international and national actors to facilitate return and repatriation, especially of persons who are returning to areas in which they would now be in the ethnic minority. These efforts have focused on overcoming of political obstacles to such returns in certain key areas as well as on supporting the

creation of the necessary conditions for return, also through an integrated approach to the reconstruction of housing, social and other infrastructure.

61. More than 80,000 refugees have repatriated to Bosnia and Herzegovina from countries in Europe since the beginning of the year and numerous displaced persons more have been able to go home. However, almost all have gone to so-called majority areas - parts of the country administered by their own ethnic group - because of continued political, security and administrative obstacles. Successful returns of so-called minorities have been limited, but then such movements have taken place in a more promising environment. Open Cities model, the political breakthrough achieved in the Central Bosnia Canton with Federation Government and international political support and some local return arrangements are noteworthy developments. In the Central Bosnia Canton, supported by the international community, the Cantonal authorities have prepared a return programme which foresees the immediate return of displaced persons to uninhabited houses and subsequent phased returns to inhabited houses and socially owned apartments. Under this plan, minority returns have already begun to previously blocked municipalities, such as Bugojno and Jajce. My Deputy, the late Ambassador Gerd Wagner, was instrumental in turning a negative incident of forced expulsions of newly returned displaced persons into a political incentive to overcome political attitudes that had blocked inter-Federation returns in Central Bosnia for all too long.

62. It is essential that limited international reconstruction funds be put to their optimum use. This also involves conditioning assistance to necessary political changes, and rewarding municipalities that support the peace process and withdrawing funds from non-compliant municipalities. My office has been advocating the development of mechanisms to deploy reconstruction assistance rapidly and flexibly in support of political openings, and will call on the major donor agencies to build such flexibility into their programmes for 1998.

63. The Coalition for Return gathers about 200 different associations of refugees and displaced persons from all over Bosnia and Herzegovina, the Federal Republic of Yugoslavia, Croatia and other host countries. The Coalition continues to be supported by my office. It operates two information centres, one each in Sarajevo and Banja Luka, the latter being in the process of starting up. The Coalition issues a monthly bulletin which is distributed throughout the country. Closely linked to the Coalition, a so-called roof project has been ongoing over the last few months, providing immediate and non-bureaucratic help for returnees through the network of the Coalition.

64. Finally, my office remains engaged in the chair of a working group on return and reconstruction in the zone of separation.

Freedom of movement

65. Freedom of movement continues to improve gradually. The key advances in the period described involve the recent signing of memoranda to reopen Tuzla, Mostar and Banja Luka airports to civilian traffic and the 26 September opening of the Gradiska border crossing between northern Bosnia and Herzegovina and Croatia. Gradiska and other northern crossing points to be opened soon will

enable freedom of movement for persons, goods and services between the Republika Srpska and Croatia.

66. The fact that international borders will now be open on all sides of Bosnia and Herzegovina will encourage efforts to press forward with uniform visa and customs policies throughout the country. Unilateral application of transit and visa fees by the Republika Srpska authorities has been a recurring problem. This must change, if the Republika Srpska authorities wish their citizens to share fully in the benefits of freer international travel and trade.

67. The IPTF implementation of its new checkpoint policy, with essential support from SFOR, is improving in effectiveness. Approvals for checkpoints have declined from some 350 daily in May to one or two dozen daily in recent weeks. Energetic dismantling of illegal checkpoints has shown local police that it is prudent to comply.

68. The 26 September agreement of the Republika Srpska authorities with IPTF to start immediately with police restructuring is another positive development. Restructuring would involve reduction of the police force from 20,000 to 8,500 personnel and intensive screening and training of remaining officers to ensure their adherence to democratic policing standards, as well as revision of rules of procedure. Effective implementation of the Republika Srpska police restructuring will be a key task for IPTF with the support of my office and SFOR.

69. Meanwhile, efforts are continuing to ensure compliance with police restructuring in the Federation, where progress in Herzegovina-Neretva and Central Bosnia Cantons has not been without difficulties.

Missing persons, mass graves

70. The issue of missing persons remains highly volatile due to its political importance as well as its personal importance to the surviving family members of the missing. The exact number of missing persons is still uncertain; the International Committee of the Red Cross (ICRC) has received tracing requests for more than 19,500 persons and to this date the status of 1,271 missing individuals have been clarified.

71. During the reporting period no major cross-inter-entity boundary line exhumations have taken place. The main reason being, different interpretations regarding the last agreement, and the political situation in the Republika Srpska. Exchange of mortal remains as well as exchange of bodies have, however, taken place between the parties.

72. Under the auspices of the International Expert Group on Exhumations and Missing Persons, chaired by the Office of the High Representative, several projects to assist the parties have been performed. Through international forensic pathologists and forensic anthropologists, the Physicians for Human Rights have been monitoring and providing technical assistance in three major exhumations, and have assisted in more than 150 post-mortem examinations. A new post-mortem protocol has been developed in order to standardize the collection

of data and it has been developed and tested in two major exhumations. In the ante mortem database project, 5,400 interviews have been made and the demographic information from informants has been computerized. Under the identification project deoxyribonucleic acid (DNA) tests have been carried out on bodies exhumed in 1996 from a mass grave in Srebrenica.

73. The International Commission on Missing Persons has continued to support family associations of missing persons as well as the ante mortem database and the identification project. Additional donations of equipment for exhumations and autopsies have also been delivered to the parties by the Commission. In order to address all issues relating to missing persons more effectively a substantial political will is required along with additional resources.

Humanitarian rights

74. Concrete steps need to be taken by the authorities to demonstrate their commitment to protecting human rights, a fundamental precondition to facilitating returns and to achieving social stability and economic development. These steps include changing laws that are not in compliance with the Constitution of Bosnia and Herzegovina, which incorporates the European Convention on Human Rights; improving security conditions and freedom of movement; protecting the right to fair trial and ensuring the rule of law; and providing opportunities for equal access to employment, housing, education and other public services, including documents.

75. The Sintra Declaration called for both Entities to amend their property laws to eliminate the substantial barriers to return. On 20 August the Federation Forum agreed that the three draft property laws prepared by the Office of the High Representative would be adopted by 30 September. Federation authorities have made some steps to meet that commitment - including its government's decision to present one of the draft laws to the Parliament - but all three laws need to be considered and adopted without further delay. At the same time, Republika Srpska authorities have taken no action to amend the existing law on abandoned property, which blocks return of refugees and displaced persons.

76. An unsatisfactory human rights situation prevails in both Entities. Violations of freedom of movement, harassment, violence, destruction of property and discrimination on the basis of ethnicity and political affiliation continue to be reported in many areas, most notably in the Republika Srpska. In a number of these cases, police have failed to take effective action to prevent or respond to incidents, and have not cooperated effectively with international monitors. In these respects, the situation remains fundamentally unchanged from my last report.

77. Many serious human rights violations which have occurred during the period described are related to the critical issue of return of refugees and displaced people. In Jajce, an IPTF investigation found that some 400-550 Bosniaks were forced to leave their homes as a result of police inaction in the face of intimidation, violence, arson and one murder. In Travnik, several violent crimes committed against Croats have given rise to concerns over the security

environment in the community, although most of these incidents appear to have motivations other than the ethnicity of the victims. There were a number of reported cases of human rights abuses committed on political grounds. Also of note during the reporting period is the continuation of the troubling pattern of attacks on religious sites. On 3 September, a Catholic church in Grbavica suffered minor damage in an explosion; on 25 September, a mosque in Tomislavgrad was seriously damaged by a bomb.

78. The extensive list of human rights obligations which form part of the Bosnia and Herzegovina Constitution must be brought into law through the adoption of implementing legislation and by a review of existing laws to determine their compatibility with international human rights standards. The Federation's expert team continues to work on reform of the criminal procedure code; similar efforts must be urgently undertaken within the Republika Srpska, and international institutions, including the Council of Europe, should be involved in the process.

79. Greater efforts must also be made by the authorities to inform the public both of their rights and of the legal framework which has been created to protect those rights. My office will continue to advocate for protection of the rights of those persons who fall victim to the substantial gap which currently exists between the standards set forth in the Bosnia and Herzegovina Constitution and existing law and to work with the Federation and the Republika Srpska authorities to establish mechanisms and procedures for inter-entity judicial cooperation.

Cooperation with the International Tribunal for the Former Yugoslavia and strengthening the rule of law

80. Cooperation with the International Tribunal for the Former Yugoslavia continues to be a key part of the process of peace implementation. The failure of responsible authorities, particularly the Republika Srpska, to hand over indicted persons presents a continuing threat to the peace process. The surrender of 10 Bosnian Croats to The Hague on 6 October was a much welcome step towards improved cooperation by Bosnian Croats and the Republic of Croatia. As of 7 October, only 4 of 18 Croats subject to publicly disclosed indictments remain at large and all 3 known Bosniaks indicted are held in The Hague. In contrast, just 3 of 54 Serbs indicted by the Tribunal are in custody (2 indicted Serbs are deceased).

81. International monitors and the media have documented and publicized the current whereabouts of a number of persons who have been indicted by the Tribunal, some of whom are believed to be working in a public capacity in the municipalities of Prijedor, Bosanski Samac and Foca.

82. The responsible authorities must take immediate steps to execute arrest warrants for persons indicted by the Tribunal and surrender all indicted persons to the Tribunal. Domestic laws and Constitutional provisions that are used as reasons for avoiding such steps are clearly superseded by the Bosnia and Herzegovina Constitution and Annexes of the Peace Agreement, and must be amended accordingly.

83. No new arrests in violation of the rules of the road occurred during the past three months. This fact alone illustrates that the rules of the road constitute an important deterrent to pretextual arrest, and are essential tools for building confidence in the domestic legal system. Nevertheless, the threat of unjustified arrest for war crimes remains a substantial obstacle to freedom of movement, in part because local authorities in both entities continue to refer repeatedly to "lists of war crimes suspects" which are wholly incompatible with the rules of the road process. The Ministers of Justice of the two entities have agreed to issue instructions to all relevant authorities informing them of their obligations under the rules, including their obligation to eliminate use of or reference to such lists. My office will continue to press the authorities to comply with the rules of the road and will intervene in cases in which the rules are violated and coordinate monitoring of war crimes cases and trials.

Economic reform and reconstruction

84. The Economic Department of my office coordinates with donor agencies and international financial institutions the international support for macroeconomics management, structural reform, economic reconstruction and refugee return. In addition, the Department will provide leadership on governance issues, a key part of the beginning anti-corruption effort. The Department is in urgent need for the secondment of economists with experience in public finance, public financial management and privatization.

85. During the reporting period six grant agreements were signed with the authorities in Bosnia and Herzegovina. The World Bank approved credits in the total amount of US$ 50 million for the financing of two projects with a total cost of $195 million. The Third Donors' Conference convened in July resulted in pledges exceeding $1.2 billion. With further pledges coming in, I am confident that the estimated reconstruction need of $1.4 billion will be met. The Conference conditioned disbursement of reconstruction aid on compliance with the Peace Agreement, and handed the task of implementing political conditionality to the Economic Task Force under my chairmanship.

86. The minimum legal framework for the Bosnia and Herzegovina economy was adopted in June. In the Federation, key legislation on privatization has been stalled over political disagreements regarding the assignment of the external debt obligations of banks and enterprises. In cooperation with the United States Treasury, I am working with the Bosniak and Croat leadership to resolve the issue. The London Club of commercial creditors reached an Agreement in Principle on debt restructuring involving a reduction of about 80 per cent in the net present value of commercial debt. A debt reduction deal with the Paris Club awaits the conclusion of an International Monetary Fund (IMF) Standby Agreement. Disagreement over the currency design and the ongoing crisis in the Republika Srpska continue to delay the Standby Agreement. However, the new Central Bank of Bosnia and Herzegovina has begun operating.

87. The reconstruction effort continues to be concentrated on infrastructure, with a strong emphasis on employment generation. In the third quarter, some 500 new contracts were signed. This raised the total number of contracts to date to

about 3,300 with an aggregate contract value of approximately $1.4 billion. However, major funding gaps remain in all major sectors. Political disagreements continue to impede the resumption of main railway services. Their resolution must remain a condition for further donor funding in the sector. In telecommunications, a viable interim solution has been reached with the signing by the Bosnia and Herzegovina Council of Ministers of the European Bank for Reconstruction and Development (EBRD) of a memorandum of agreed principles and the EBRD memorandum of understanding. This has opened the way for grants and concessionary credits for the financing of telecommunications infrastructure. The European Community project established the first inter-entity telephone link. Yet, conditionality will still be needed to secure further progress in the sector.

88. Under the supervision of my Deputy, Brcko Supervisor, some 320 families have returned to the Brcko area, and return applications of an additional 5,000 people have been approved. Compared to the pace of refugee return, infrastructure reconstruction and economic revitalization are lagging with the attendant consequences for the local labour market. At the Donors' Conference, the Brcko Supervisor called attention to the need for making revitalization of the economy an integral part of the return process, and donors responded by pledging funds. Project development and implementation, however, are not proceeding rapidly enough. A deteriorating health situation, furthermore, will require additional funding for a screening and vaccination programme.

89. The main impediments to a greater return of refugees have been the failure of both entities to make the changes in the property legislation as well as the political climate and economic destitution in the Republika Srpska. There have also been substantial resource constraints in the housing sector. The financing gap of $320 million-$420 million to fill the costs of the anticipated return was not adequately addressed either by loan or grant financing.

Civil aviation

90. A major success of the period described was the joint signing by the Co-chairman of the Bosnia and Herzegovina Council of Ministers of the memorandum of understanding for the new Bosnia and Herzegovina Department of Civil Aviation and the airport memorandums of understanding for Banja Luka, Mostar and Tuzla. The Office of the High Representative main effort is now focused on turning the concept of the Department of Civil Aviation into a fully operational and responsible central body and on opening the airports to civilian air traffic.

91. The formation of an international secretariat which is the key to providing arbitration within the Department of Civil Aviation during its infancy will be the priority task of my office. The secretariat, chaired by the Office of the High Representative initially, will comprise aviation experts from the International Civil Aviation Organization (ICAO), Eurocontrol and the Federal Aviation Authority joined by other influential players from the European Community (Aviation Policy), the North Atlantic Treaty Organization (NATO) and the Supreme Headquarters Allied Powers, Europe (SHAPE). The first joint meeting of these agencies took place on 8 October; it is expected that the main personnel will commence detachments to Sarajevo. I remain convinced that the

regeneration of civil aviation is pivotal to the economic and social recovery of Bosnia and Herzegovina and the topic will continue to be a high priority on my agenda.

Mine clearance

92. I have agreed to a request by the United Nations Mission in Bosnia and Herzegovina (UNMIBH) that the Office of the High Representative should become fully involved in the formulation of the new Bosnia and Herzegovina national demining organization. The Office of the High Representative's greater participation is required to ensure the structure's adoption by the Council of Ministers and to ease the anxieties of those donors who have been sceptical of the United Nations contribution to Bosnia and Herzegovina demining so far. As a result the representatives of UNMIBH and the Office of the High Representative will chair an Interim Steering Committee which will be attended by the European Union, World Bank, Mine Action Centre (MAC) and others. The aim of the group is to bring together a powerful body of key donors who can ensure that the final demining organization structure meets necessary requirements, and focus pressure onto the indigenous Bosnia and Herzegovina organization in order to build a Bosnia and Herzegovina national demining structure that is both transparent and accountable. After 1 January 1998 the Interim Steering Committee will form into a Steering Committee, which will maintain the required oversight of the national organization that will replace MAC.

IV. COOPERATION WITH THE STABILIZATION FORCE

93. Cooperation with SFOR, whose role is essential in providing the secure environment necessary for civilian implementation, remains excellent. I am pleased that SFOR will remain at phase III troop levels for the foreseeable future and welcome the open debate regarding the need for a stable environment for civilian implementation beyond the end of the SFOR mandate in June 1998. On a more practical level my work and that of my principal staff, is becoming increasingly hampered by the lack of available air transport within, and to and from, theatre. Any additional support that could be provided would be most welcome.

V. LOOKING FORWARD

94. The successful implementation of the municipal election results will be a major challenge in the coming months. The Election Implementation Plan, endorsed in Sintra, establishes a two-stage certification period which will close with the establishment of a functioning municipal assembly and election of municipal authorities that fairly represent the election results. To this end, an inter-agency monitoring mechanism will enable the identification of any body that is obstructing the implementation process. In consultation with OSCE, I may ultimately need to take appropriate action should implementation be incomplete, however the responsibility for the installation of elected candidates, their personal safety and for a fully functioning Municipal

Assembly, lies squarely on the shoulders of the political parties and the local authorities.

95. This is a significant task and an important step forward in the realization of the peace process. Moreover, while I support the close attention being paid to the prospect of other elections which might be held within the Republika Srpska, these should not be allowed to detract from the satisfactory implementation of the municipal election results. The international supervision of these other elections will make technical and financial demands which should be reflected in realistic target polling dates. The principle is clear: until the establishment of the Permanent Election Commission - provided for under Annex 3 - OSCE must be satisfied that all elections can be said to be free, fair and democratic. Any such supervision must be accompanied by the strict application of the rules and regulations relating to the rules for eligibility to vote.

96. The establishment of the Permanent Election Commission is one of the key tasks facing the authorities and my office in the coming months. It is to be established by an Election Law to be adopted by the Bosnia and Herzegovina Parliamentary Assembly. To this end, I have engaged experts to prepare a first draft which will be presented to the authorities for their consideration in the near future. I must emphasize, however, that international supervisory elements, at least for a transitional period, need to be built into the Election Law.

97. The creation of open and independent media is crucial, not only for the electorate to be fully informed of the choices available, but also for the creation of a democratic society in Bosnia and Herzegovina. I will continue to insist on dramatic media reform, not only in the Republika Srpska, but in the Federation as well. Media abuse will be dealt with in a robust manner reflecting the powers I was given in the Sintra Declaration. I will not hesitate to recommend action, similar to that taken by SFOR in the Republika Srpska, against other media outlets should it be required. West Mostar television, for example, has been a source of concern and will receive greater scrutiny over the coming months.

98. The use of force to achieve compliance can produce results in the short term. However to achieve real reform of the media, alternative programming, monitoring and legislation, is required. The OBN footprint is rapidly expanding; I also intend to insert public information programming into media networks. Until media laws have been adopted by the two Entities, I intend to create, as a successor to the Media Experts Commission, an independent Media Standards and Licensing Commission. This Commission will provide the interim legal framework through which broadcasting media will be licensed and regulated. My office is currently developing the working procedures of the Media Support and Advisory Group which will form the executive body administering the powers granted to me in Sintra.

99. I remain deeply concerned regarding the lack of resources - both financial and in kind - for IPTF. Considerable steps forward have been made with the police restructuring in the Federation, however, stagnation is likely if the resources necessary to enable IPTF to carry through the reforms are not

forthcoming. Likewise, the recent agreement on restructuring in the Republika Srpska could lose momentum. I urge nations rapidly to commit the funds requested.

100. There has been some progress in the Common Institutions of Bosnia and Herzegovina and a number of the tasks established in the Sintra Declaration have been achieved. However, on issues of substance such as citizenship and passports laws and common flag, the Serb members of the Common Institutions continue to obstruct. I do not believe that non-compliance measures in isolation have the desired effect; we will be developing other means for overcoming blockages. In particular, I believe we should consider the possibility of strengthening my mandate to allow me, with the support of the authorities of Bosnia and Herzegovina, to arbitrate on issues where agreement cannot be reached. It is essential that, while assisting them to move forward, we do not undermine the powers of the Common Institutions or the idea of consensus enshrined in the Constitution of Bosnia and Herzegovina.

101. The Common Institutions remain fragile and require our support, however, they must assume the responsibility given them by the electorate. To this end, they must urgently resolve the issues of location and administrative services, without which their work is superficial. My office continues to assist them with logistical and secretarial support, a situation I consider unacceptable. The emphasis over the next few months will therefore be on the establishment of fully functioning bodies capable of carrying forward the workload on their own.

102. I welcome the emergence of an opposition within the Republika Srpska leadership and a direct challenge to the corrupt and deceitful regime in Pale. It is important however to note that alternative voices are not necessarily the voices of reason or peace. Whoever exercises constitutional power following the forthcoming elections will be tightly held to all the Republika Srpska obligations under the Peace Agreement.

103. Ultimately, significant changes in the attitude of the authorities in the Republika Srpska are impossible so long as indicted war criminals remain at large. In particular, the continued and active political influence of R. Kradzic directly obstructs implementation and threatens the security and integrity of Republika Srpska. The complete failure by the Federal Republic of Yugoslavia to fulfil its obligations under the Peace Agreement in this respect is unacceptable. All competent authorities are reminded of their obligations to submit suspected war criminals to the Tribunal and, while I note the role of Croatia in facilitating the voluntary appearance at The Hague of 10 indicted Bosnian Croats, a great deal more remains to be done on all sides. This issue must be urgently resolved.

104. The situation in the Federation has seen some improvements over the last few months, most notably there have been significant minority returns of displaced people within Central Bosnia. I must emphasize the crucial role that my Deputy, the late Ambassador Gerd Wagner, played in facilitating this breakthrough. I urge the authorities in the Federation to continue this process and I look to the international community to reward such developments with fast and flexible deployment of resources and funding to facilitate reconstruction and return.

105. In Mostar, I welcome the removal of some of those who have actively obstructed reconciliation and progress and expect positive engagement by their successors. However, the situation there remains volatile in particular due to the fact that the three West Mostar municipalities have not yet been dissolved. I will recommend that non-compliance measures, such as the denial of travel visas, be applied to all officials I perceive as actively blocking the peace process.

106. On the wider issue of refugee return which has been far from satisfactory in 1997, current property laws remain a serious impediment. Despite the Sintra obligation to amend the laws, neither Entity has complied. I will therefore be recommending non-compliance measures at the November meeting of the Steering Board.

107. In Brcko, we are approaching the crucial phase of establishing a multi-ethnic administration, police and judiciary. Both the Republika Srpska and the Federation are reminded that the implementation of this phase and their compliance with all orders of the Supervisor, will have a direct bearing on the final award. Funds are urgently required to support the economic revitalization essential to establishing a multi-ethnic society in Brcko and facilitating the phased and orderly return process. To this end, I will be calling for a conference to address these issues.

108. Completing the task of establishing and making operational the common institutions of economic management remains a priority of my office. Increasingly, however, the focus will shift to creating the conditions for sustained growth well before international reconstruction assistance comes to an end. I believe that the current political crisis in Republika Srpska will result in a firmer commitment to the Peace Agreement; this will finally open the way for starting the economic recovery in Republika Srpska which already has benefited the Federation in an impressive manner. I urge donors to reward such change rapidly and decisively. While economic recovery reinforces the peace process by giving all groups a stake in the common future, I will also use reconstruction assistance as a lever for directly furthering specific political objectives.

109. With the opening of the Central Bank in August, all common institutions have now resumed their work. The minimum set of basic legislation, the so-called quick start package was also adopted. However, much remains to be done. Overdue tasks include: issuance of the common currency, implementation of the common customs tariff schedule; installing the administrative capacity of the Council of Ministers; and adopting the Foreign Investment Law. In addition, my office is working with international agencies and local authorities on a second set of essential legislation on the State level in the areas of customs, civil aviation, frequency management and telecommunications.

110. Private investment and exports must increasingly replace reconstruction assistance as the dominant sources of growth. The transition to a market economy is key. In close cooperation with the World Bank, the European Commission, the United States Treasury and the United States Agency for International Development, my office is focusing on getting the privatization process started, modernizing the framework for domestic and foreign investment,

reforming the social security system as a prerequisite for easing the excessive burden of contributions, and approximating basic commercial laws to the standards of the European Union.

111. The Third Donors' Conference has agreed to the repeated suggestions of the Peace Implementation Council that political conditionality be applied to reconstruction assistance, and has given the Economic Task Force under my chairmanship the mandate for implementing political conditionality. I expect that a new structure I am setting up in the Office of the High Representative will succeed in using the potential leverage.

112. I intend to take the lead in the fight against corruption and diversion of funds, which causes growing concern in the international community. My office, with the support of the World Bank and other main donors, has shown that the source of corruption is not the use of reconstruction aid, but rather opportunities for the evasion of customs duties and sales taxes, and for the misappropriation of domestic public funds. I have requested the Economic Task Force to develop a comprehensive anti-corruption strategy in Bosnia and Herzegovina. An essential part of it will be the establishment of an inter-agency group with local participation as means to raise public awareness of the problem and create consensus on the necessary reforms.